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SUBJECT: HIGH-TECH LAMPHUN SHOWS COMPETITIVE POTENTIAL AND INVESTMENT LIMITS OF NORTHERN THAILAND

REF: A. A. 07 CHIANG MAI 123 (INDUSTRIAL ZONE TRANSFORMS LITTLE LAMPHUN)

[B. B. 08 CHIANG MAI 128 \(NORTHERN THAILAND CREATES A SPACE FOR U.S. INVESTMENT\)](#)

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Summary and Comment

[¶1.](#) As host to many foreign high-tech manufacturing firms, the Northern Regional Industrial Estate (NRIE) of Lamphun province is both a model for the potential of northern Thailand as a producer of sophisticated electronics products as well as a reality check of the challenges foreign investors face in the region. The competitiveness of electronic components produced in Lamphun in the global supply chain of consumer electronics is evidence of the potential for the northern region as a high-tech manufacturing hub. However, the crowdedness of the NRIE, the red tape that limits the construction of new estates, and the on-going political crisis in Bangkok are barriers to the expansion of high-tech manufacturing in northern Thailand.

[¶2.](#) Comment: The success of the Northern Regional Industrial Estate, measured by the loyalty of firms functioning on the estate and the estate currently operating at maximum capacity, suggests that Lamphun can be a model for the construction of new estates in northern Thailand. Moreover, the niche industry that foreign electronic parts-producing firms have developed in Lamphun over the past twenty years is an indicator that labor in the region can be competitive in the global production chain of small, high-tech electronics. However, the expansion of the Lamphun estate and the construction of new estates in the north, as government-initiated projects, will likely remain on hold until the on-going political crisis in Bangkok has subsided and some degree of normalcy returns. Remaining red tape that hinders NRIE expansion will also need to be addressed in order for northern Thailand to reach its full potential in this niche market. End summary and Comment.

Lamphun to China to the World

[¶3.](#) While agriculture and tourism remain the cornerstones of the regional economy, the tiny province of Lamphun, located adjacent to Chiang Mai, is a shining example of the potential competitive advantage for the region as a hub of high-tech electronics manufacturing. ConGen staff visited the 21-year-old Northern Regional Industrial Estate (NRIE), where a concentration of foreign firms operate to produce a variety of goods, most notably small, lightweight electronic components for consumer electronic products, such as cell phones and laptops. The 98 firms present in the NRIE also manufacture a range of other goods from animal feed to cosmetics to lingerie.

¶ 4. The rising stars among goods produced at the NRIE are the highly sophisticated - and often expensive - high-tech components for electronics goods, which include optical lenses, transponders, glass disks for hard drives, and other parts used in electronic goods. Most producers of these products are Japanese, though one American firm, Innovex, produces these goods as well. (Note: Currently two wholly American-owned and four partially American-owned firms operate at the NRIE.)

¶ 5. The Japanese firm MuRata, the first Japanese electronics firm to start operations on the Lamphun NRIE, selected the estate in 1989 after considering other locations in ASEAN, including Kuala Lumpur, Bangkok, and various cities in Indonesia. According to the firm's managing director, Lamphun's NRIE was selected because of local labor's careful attention to detail and the northern Thai climate, which they described as comparable to Japan's. Because of the low cost of shipping small, light-weight electronics parts, the inland location of Lamphun province does not add significant costs to operating there, while the relatively lower cost of labor vis-a-vis Bangkok was an added advantage. MuRata imports many of its raw materials from Japan (what the managing director referred to as "trust relationships" that keep the firm loyal to its kin in Japan) and exports the parts - about 80% of the Lamphun factory's output - back to Japan. MuRata exports about 70% of its goods by land from Lamphun to Bangkok for shipment by sea and 30% by air directly to Japan.

¶ 6. While MuRata tends to follow this Japan-focused supply chain model, most other firms, such as the U.S. firm Innovex, tend to fit into another major cycle: parts are produced in Lamphun, then assembled in China, from where final goods are shipped to world markets. Innovex, which as of three years ago concentrated all manufacturing operations in Lamphun, imports its raw materials from elsewhere in Asia, primarily Taiwan. After producing the electronic parts, mainly "flexible interconnects" (a component for computer hard drives), Innovex

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exports the components to China where final assembly takes place before shipment to U.S. or other markets. Innovex confirmed that many electronic parts producers on the NRIE follow this production pattern.

A Competitive Eye for Detail

¶ 7. The lasting competitiveness of the NRIE in Lamphun, despite the tendency of some firms to shift manufacturing to relatively cheaper China and Vietnam, is attributed to northern Thailand's abundant and semi-skilled labor force. According to electronics firms operating on the estate, Thai factory workers, who tend to be overwhelmingly female (ref A), are relatively more skilled at highly detailed work. The result is higher quality goods that may be slightly more expensive in world markets but are certainly more competitive.

¶ 8. Innovex, for example, is able to use certain laser technologies to produce its hard drive components because of local labor's ability to learn and implement this sophisticated production process. According to Innovex, competitor firms that do not use laser technology produce cheaper but lower quality parts that are less competitive. Most notably, Innovex recently relocated a highly capital-intensive portion of its production process to Lamphun from the U.S. It was the last of Innovex's manufacturing operations in the U.S. and is a testament to the firm's confidence in Lamphun as a high-tech production center. Innovex also reported that some of its clients who had switched to lower cost suppliers in China in previous years have since returned to Innovex because, despite the higher prices, the clients were far more confident in the quality of Innovex's product.

¶ 9. Similarly, MuRata began manufacturing in Beijing in 1994 and outside Shanghai in 1995. MuRata complained to us that managers

face a variety of problems in China including bad quality control of products and bad behavior and performance among workers, which Lamphun-based managers said are not problems here. MuRata's managing director noted that China's strict labor laws controlling voluntary labor mobility across provinces and limiting individual workers' time spent in certain coastal manufacturing areas cause the average length of employment to be only two years, whereas MuRata's Lamphun factory boasts a ten-year average. Thus, although average wages tend to be lower in China, MuRata has found it can save costs on re-training in Thailand, where labor tends to be more loyal and less mobile.

Estate Growing Pains and Other Challenges

¶10. The crowdedness of the NRIE is another indicator of northern Thailand's appeal as a high-tech manufacturing center. The NRIE in particular is attractive to foreign firms because it includes a Board of Investment certification that allows for a range of tax incentives and duty-free export from Thailand (ref B). For potential new investors, however, the bad news is that the NRIE is full. The NRIE Director said the estate is trying to expand, but is facing land procurement challenges. (Innovex noted it is monitoring the potential expansion of the NRIE since Innovex wishes to increase its own operations.)

¶11. The NRIE in Lamphun covers the 16 northern-most provinces of Thailand. The NRIE Director said the Industrial Estate Authority of Thailand (IEAT), the state enterprise that runs the NRIE, is eager to develop new industrial estates in the north. As a semi-government owned and operated organization, however, the IEAT faces significant obstacles when trying to develop a new estate unilaterally. In particular, the challenges of government land procurement are significant relative to a private acquisition of land. Thus, joint-ventures for new estates between IEAT and foreign firms would make land acquisition and construction significantly more efficient. A feasibility study is currently in process for a new estate in Chiang Khong, a Thai-Lao border city along the North-South economic corridor of the Asian Development Bank's Greater Mekong Subregion project.

Despite Hard Times, An Optimistic Future

¶12. Economic optimism seems to be the norm across the NRIE, despite the current global financial situation, the red tape that hinders expansion, and the political situation in Bangkok. As noted, the NRIE is eager to expand its Lamphun estate, and the IEAT is seeking ways to build new estates in the north.

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Saha Group, a Thai firm, has developed a nearby private industrial estate which is quickly filling with domestic and foreign manufacturers who specialize in handmade products, mainly jewelry and textiles. MuRata is forecasting slightly lower profit margins at present, but is seeking to expand operations in the automotive parts market and is optimistic about returns on that new venture. Innovex is boasting sustained growth and forecasts above-expected margins in the coming quarter. Recently acquired new clients have boosted Innovex's growth forecasts, and the firm is even considering reopening its previously closed factory in northeastern Thailand to handle the increasing demand for its products.

Labor: Organizing, but Content

¶13. The recent formation of two industry-wide labor unions, one by electronics factory workers and another by jewelry and gem workers, has raised awareness of potential labor issues at the NRIE's nearly 100 factories. The NRIE Director and firms operating on the estate dismissed any significant labor issues.

They noted that the vast majority of workers' complaints are related to benefits rather than legal versus illegal labor conditions. Their claims were generally consistent with the comments by the Lamphun-based Friends for Friends labor rights NGO. At present, the electronics union only has members from the Thai subsidiary of the Japanese firm Hoya; while the jewelry union has members from only two firms. (Note: On August 4, Hoya Glass Disk Thailand, a subsidiary of Hoya Corporation Japan, dismissed 43 workers without advance notice, and the Ministry of Labor revoked the license of the company's labor union, stating that the labor leaders lack proper qualifications. End Note).

¶14. Representatives of the Friends for Friends NGO stated that most workers at the NRIE are trapped in a never-ending overtime cycle in which laborers are enticed to work overtime in order to reach company set production goals. According to the NGO, goals cannot be reached without working overtime. Moreover, as production goals are met, the employers continue to increase the goals forcing workers to contribute more and more overtime hours. The NGO complained that the cycle causes health risks in that workers eventually forgo meal and restroom breaks in order to continue working; however, examples of such health-related incidents seem to be few. The NGO admitted that, with the exception of some mysterious factory worker deaths in 1992 (ref A), no major legal issues have arisen at the factories.

¶15. This cable was coordinated with Embassy Bangkok.
ANDERSON